

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Charter Township of Fenton	County Genesee
Audit Date 12/31/05	Opinion Date 3/23/06	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

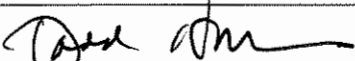
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☒ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Plante & Moran, PLLC			
Street Address 111 E Court Street, Suite 1A	City Flint	State MI	ZIP 48502
Accountant Signature 		Date 6/14/06	

Financial Statements

**Charter Township of Fenton
Genesee County, Michigan**

December 31, 2005

**Charter Township of Fenton
Financial Statements
For the Year Ended December 31, 2005**

Table of Contents

Page

Introductory Section:

List of Elected Officials	1
---------------------------------	---

Financial Section:

Report of Independent Auditors.....	2
Management's Discussion and Analysis	3-8

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Assets.....	9
Statement of Activities.....	10-11

Fund Financial Statements:

Governmental Funds:

Balance Sheet	12-13
Reconciliation of the Fund Balance as Reported in the Governmental Balance Sheet to the Statement of Net Assets	14
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	15-16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	17

Proprietary Fund:

Statement of Net Assets	18
Statement of Revenues, Expenses, and Changes in Net Assets.....	19
Statement of Cash Flows	20

**Charter Township of Fenton
Financial Statements
For the Year Ended December 31, 2005**

Table of Contents (continued)

	<u>Page</u>
Basic Financial Statements: - (continued)	
Fund Financial Statements: - (continued)	
Fiduciary Funds:	
Statement of Assets and Liabilities	21
Notes to Basic Financial Statements	22-36
Required Supplementary Information Section:	
Budgetary Comparison Schedule – General Fund	37
Budgetary Comparison Schedule – Waste Collection Special Revenue Fund.....	38
Budgetary Comparison Schedule – Fire Special Revenue Fund.....	39
Other Supplemental Information:	
Nonmajor Governmental Funds:	
Budgetary Comparison Schedule – Mosquito Special Revenue Fund.....	40
Fiduciary Funds:	
Balance Sheet – Agency Funds	41

**Charter Township of Fenton
Genesee County, Michigan
List of Elected Officials
December 31, 2005**

Bonnie K. Mathis, Supervisor

Robert E. Krug, Clerk

Patrick J. Carmody, Treasurer

Tony L. Brown, Trustee

Calvin C. Gatesman, Trustee

Mark A. Goupil, Trustee

Lorraine M. Zimmer, Trustee

Independent Auditors' Report

Board of Trustees
Charter Township of Fenton
Fenton, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Fenton (Township) as of and for the year then ended December 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Fenton at December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules as identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township's basic financial statements. The introductory section and the other supplemental information, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

PLANTE & MORAN, PLLC

March 23, 2006

Management's Discussion and Analysis

Charter Township of Fenton Management's Discussion and Analysis

This section of the Fenton Township annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year that ended on December 31, 2005. Please read it in conjunction with the Township's financial statements, which follow this section.

Financial Highlights

- The Township's Total Net Assets are \$10.6 million at December 31, 2005. Unrestricted net assets were \$475,043.
- During the year, the Township's expenditures were \$187,881 more than the \$3,489,857 generated in taxes and other revenues for all governmental funds combined.
- General Fund expenditures exceeded revenues by \$114,173 as excess cash reserves were utilized to fund some current year expenditures. The year-end fund balance of \$441,956 represents approximately 2½ months of expenditures, which is within the target range of 2½ to 4 months.

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township government, reporting the Township's operations in more detail than the government-wide statements.
- The governmental fund statements tell how general government services like public safety were financed in the short term as well as what remains for future spending.
- Proprietary fund statements offer short- and long-term financial information about the sewer system that the government operates like a business.
- Fiduciary fund statements provide information about the financial relationships where the Township acts as an agent, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Table 1 summarizes the major features of the Township's financial statements, including the portion of the Township government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**Table 1 Major Features of Fenton Township's
Government-wide and Fund Financial Statements
Fund Statements**

Type of Statements	<u>Government-wide</u>	<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire Township government (except fiduciary funds)	The activities of the Township that are not proprietary or fiduciary, such as police, fire, and parks	Activities the Township operates similar to private businesses: the sewer system	Instances in which the Township is the trustee or agent for someone else's resources
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Agency funds statement of assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term, the Township's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	Increases and decreases to assets and liabilities

Government-wide Statements

The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Township's net assets and how they have changed. Net assets – the difference between the Township's assets and liabilities – is one way to measure the Township's financial health or position.

- Over time, increases or decreases in the Township's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township you need to consider additional non-financial factors such as changes in the Township's property tax base and the condition of the Township's roads.

The government-wide financial statements of the Township are divided into two categories:

- Governmental activities – Most of the Township's basic services are included here, such as the police, fire, public works, parks, and general administration. Property taxes and state and federal grants finance most of these activities.
- Business-type activities – The Township charges fees to customers to help it cover the costs of certain services it provides. The Township's sewer system is the only business-type activity.

Fund Financial Statements

The fund financial statements provide more detailed information about the Township's most significant funds – not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law.
- The Township Board establishes other funds to control and manage money for particular purposes.

The Township has three kinds of funds:

- Governmental funds – Most of the Township's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between the two sets of statements. The Township has four governmental funds: the General Fund, the Fire Fund, the Waste Collection Fund and the Mosquito Control Fund.
- Proprietary funds – Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. The Township has only one proprietary fund, the Sewer Fund.

- Fiduciary funds – The Township is the fiduciary, for assets held on the behalf of others. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Township's fiduciary activities are reported in a separate agency fund balance sheet. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

Financial Analysis of the Township as a Whole

Net assets

The Township's governmental activities net assets are \$1.7 million. The unrestricted governmental activities net assets are \$144,038. Business-type activities net assets are \$8.9 million with \$8.6 million being invested in capital assets net of related debt.

Business-Type Activities

Operating revenues of the Township's business-type activities increased \$329,323 from the prior year of \$2,034,218 to the current year total of \$2,363,541. Operating expenses decreased by \$989,518. Net changes from non-operating activities decreased from revenue of \$280,394 to an expense of \$297,321, due primarily to a decrease in connection fee revenue and an increase in bond interest expense.

Charter Township of Fenton's Net Assets (Thousands)

	<u>Government Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 3,163	\$ 3,164	\$ 2,739	\$ 8,294	\$ 5,902	\$ 11,458
Capital assets	2,532	2,474	32,759	28,765	35,291	31,239
Total assets	<u>\$ 5,695</u>	<u>\$ 5,638</u>	<u>\$ 35,498</u>	<u>\$ 37,059</u>	<u>\$ 41,193</u>	<u>\$ 42,697</u>
Other liabilities	\$ 2,588	\$ 2,392	\$ 2,143	\$ 1,592	\$ 2,964	\$ 2,699
Long-term liabilities outstanding	1,417	1,701	24,365	25,837	27,549	28,823
Total liabilities	<u>\$ 4,005</u>	<u>\$ 4,093</u>	<u>\$ 26,508</u>	<u>\$ 27,429</u>	<u>\$ 30,513</u>	<u>\$ 31,522</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 1,546	\$ 1,369	\$ 8,659	\$ 9,253	\$ 10,205	\$ 10,622
Unrestricted	144	176	331	377	475	553
Total net assets	<u>\$ 1,690</u>	<u>\$ 1,545</u>	<u>\$ 8,990</u>	<u>\$ 9,630</u>	<u>\$ 10,680</u>	<u>\$ 11,175</u>

Charter Township of Fenton's Changes in Net Assets (Thousands)

	Government Activities		Business-type Activities		Total	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,119	\$ 1,347	\$ 2,364	\$ 2,034	\$ 3,483	\$ 3,381
Operating grants and contributions	21	13	-	-	21	13
Capital grants and contributions	95	69	653	898	748	967
General revenues:						
Property taxes	1,169	1,157	92	95	1,261	1,252
State shared revenue	895	890	-	-	895	890
Other	192	27	93	24	215	51
Total revenues	<u>3,491</u>	<u>3,503</u>	<u>3,202</u>	<u>3,051</u>	<u>6,623</u>	<u>6,554</u>
Expenses:						
Legislative	69	74	-	-	69	74
General government	1,142	1,183	-	-	1,142	1,183
Public safety	1,065	1,064	-	-	1,065	1,064
Public works	960	843	-	-	960	843
Recreation and cultural	19	86	-	-	19	86
Interest on long-term debt	91	-	-	-	91	-
Water and sewer	-	-	3,842	4,465	3,805	4,465
Total expenses	<u>3,346</u>	<u>3,250</u>	<u>3,842</u>	<u>4,465</u>	<u>7,151</u>	<u>7,715</u>
Increase (decrease) in net assets	145	253	(640)	(1,414)	(528)	(1,161)
Net assets – 1/1/2005	<u>1,545</u>	<u>1,292</u>	<u>9,630</u>	<u>11,044</u>	<u>11,175</u>	<u>12,336</u>
Net assets – 12/31/2005	<u>\$ 1,690</u>	<u>\$ 1,545</u>	<u>\$ 8,990</u>	<u>\$ 9,630</u>	<u>\$ 10,647</u>	<u>\$ 11,175</u>

Financial Analysis of the Township's Funds

As the Township completed the year, its General Fund reported a fund balance of \$441,956. This was a decrease of \$114,173 from the prior year. The Township's General Fund revenues excluding other financing sources were \$2.155 million this year. Property taxes were \$690,319 or 32% of the total revenues. Federal grants and State revenue sharing made up \$920,753 or 42.7% of the total revenue. The remaining 25.3% of General Fund revenues are comprised mostly of Charges for Services, Fines & Forfeits and Interest Revenue.

Capital Assets

At the end of 2005, the Township had invested \$10.205 million in capital assets, net of related debt. This amount complies with methods established by the Governmental Accounting Standards Board (GASB).

Charter Township of Fenton's Capital Assets
(Thousands - net of depreciation)

	Government Activities		Business-type Activities		Total	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land	\$ 60	\$ 60	\$ -	\$ -	\$ 60	\$ 60
Land improvements	150	159	-	-	150	159
Construction in progress	-	-	904	79	904	79
Buildings	1,630	1,521	38	40	1,668	1,561
Machinery and equipment	688	727	-	-	688	727
Furniture and fixtures	4	7	-	-	4	7
Sewer infrastructure	-	-	31,817	28,646	31,817	28,646
Total	<u>\$ 2,532</u>	<u>\$ 2,474</u>	<u>\$ 32,759</u>	<u>\$ 28,765</u>	<u>\$ 35,291</u>	<u>\$ 31,239</u>

Long-term Debt

At year-end the Township had \$1.715 million in governmental long-term debt, including \$305,000 in special assessment debt. In the Sewer Enterprise Fund the Township had \$25.834 million in bonds outstanding.

Limitations on Debt

The State limits the amount of general obligation debt the Township can issue to 10% of the assessed value of all taxable property within the Township's corporate limits. Our legal debt limit is \$86.412 million. Debt issued for sewer activities and special assessments are exempt from the 10% limitation.

Contacting the Township's Financial Administration

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Fenton Township Office.

Basic Financial Statements

Government-wide Financial Statements

Charter Township of Fenton
Statement of Net Assets
December 31, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,456,399	\$ 312,175	\$ 1,768,574
Receivables (net of allowances for uncollectibles)	1,682,108	628,196	2,310,304
Internal balances	(4,378)	4,378	-
Prepays	28,540	11,830	40,370
Deferred charges	-	48,750	48,750
Restricted assets:			
Cash with agent	-	1,734,122	1,734,122
Capital assets, not being depreciated	60,690	903,705	964,395
Capital assets (net of accumulated depreciation)	2,471,263	31,855,140	34,326,403
Total assets	5,694,622	35,498,296	41,192,918
Liabilities			
Accounts payable	248,420	260,701	509,121
Accrued interest payable	-	209,008	209,008
Deposits	46,400	-	46,400
Due to other governmental units	276,412	-	276,412
Unearned revenue	1,718,637	204,615	1,923,252
Noncurrent liabilities:			
Current portion of debt	298,579	1,468,980	1,767,559
Long term portion of debt	1,416,533	24,364,578	25,781,111
Total liabilities	4,004,981	26,507,882	30,512,863
Net Assets			
Invested in capital assets, net of related debt	1,545,603	8,659,409	10,205,012
Unrestricted	144,038	331,005	475,043
Total net assets	\$ 1,689,641	\$ 8,990,414	\$ 10,680,055

See notes to financial statements.

**Charter Township of Fenton
Statement of Activities
For the Year Ended December 31, 2005**

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
Legislative	\$ 69,011	\$ -	\$ -	\$ -
General government	1,142,080	200,566	-	-
Public safety	1,064,928	223,558	-	95,177
Public works	959,708	694,961	5,061	-
Recreation and cultural	19,202	-	15,861	-
Interest on long term debt	90,660	-	-	-
Total governmental activities	3,345,589	1,119,085	20,922	95,177
Business-type activities:				
Sewer	3,842,461	2,363,541	-	653,575
Total business-type activities	3,842,461	2,363,541	-	653,575
Total primary government	\$ 7,188,050	\$ 3,482,626	\$ 20,922	\$ 748,752

General revenues:
Property taxes
State shared revenues
Unrestricted investment earnings
Franchise fees
Total general revenues
Change in net assets
Net assets - beginning of year (as restated)
Net assets - end of year

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government

Governmental Activities	Business-type Activities	Total
\$ (69,011)	\$ -	\$ (69,011)
(941,514)	-	(941,514)
(746,193)	-	(746,193)
(259,686)	-	(259,686)
(3,341)	-	(3,341)
(90,660)	-	(90,660)
(2,110,405)	-	(2,110,405)
-	(825,345)	(825,345)
-	(825,345)	(825,345)
(2,110,405)	(825,345)	(2,935,750)
1,169,174	92,068	1,261,242
895,414	-	895,414
36,519	92,891	129,410
153,565	-	153,565
2,254,672	184,959	2,439,631
144,267	(640,386)	(496,119)
1,545,374	9,630,800	11,176,174
\$ 1,689,641	\$ 8,990,414	\$ 10,680,055

Fund Financial Statements

**Charter Township of Fenton
Governmental Funds
Balance Sheet
December 31, 2005**

	General Fund	Waste Collection Fund	Fire Fund
Assets			
Cash and equivalents	\$ 875,191	\$ 204,770	\$ 290,147
Receivables:			
Accounts	41,559	691	-
Taxes	216,162	-	-
Special assessments	10,788	519,017	441,480
Due from other governments	296,127	-	25,300
Prepays	19,926	-	8,614
Total assets	<u>\$ 1,459,753</u>	<u>\$ 724,478</u>	<u>\$ 765,541</u>
Liabilities			
Accounts payable	\$ 191,525	\$ 49,352	\$ 7,543
Deposits payable	46,400	-	-
Due to other governments	276,412	-	-
Due to other funds	4,378	-	-
Unearned revenue	499,082	582,184	491,465
Total liabilities	<u>1,017,797</u>	<u>631,536</u>	<u>499,008</u>
Fund Equity			
Fund balances:			
Reserved for prepaids	19,926	-	8,614
Unreserved and undesignated, reported in:			
General fund	422,030	-	-
Special revenue funds	-	92,942	257,919
Total fund balances	<u>441,956</u>	<u>92,942</u>	<u>266,533</u>
Total liabilities and fund balances	<u>\$ 1,459,753</u>	<u>\$ 724,478</u>	<u>\$ 765,541</u>

See notes to financial statements.

Other Non-major Mosquito Control Fund	Total Governmental Funds
\$ 86,291	\$ 1,456,399
144	42,394
-	216,162
130,840	1,102,125
-	321,427
-	28,540
<u>\$ 217,275</u>	<u>\$ 3,167,047</u>
\$ -	\$ 248,420
-	46,400
-	276,412
-	4,378
145,906	1,718,637
<u>145,906</u>	<u>2,294,247</u>
-	28,540
-	422,030
71,369	422,230
<u>71,369</u>	<u>872,800</u>
<u>\$ 217,275</u>	<u>\$ 3,167,047</u>

**Charter Township of Fenton
Governmental Funds
Reconciliation of Fund Balances as Reported in the Governmental Funds
Balance Sheet to the Statement of Net Assets
December 31, 2005**

Fund balances of governmental funds	\$ 872,800
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund financial statements	2,531,953
Long-term liabilities, including bond and contract payables, are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,715,112)</u>
Net assets of governmental activities	<u><u>\$ 1,689,641</u></u>

See notes to financial statements.

**Charter Township of Fenton
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended December 31, 2005**

	General Fund	Waste Collection Fund	Fire Fund
Revenues:			
Taxes and collection fees	\$ 690,319	\$ -	\$ -
Special assessments	-	549,059	478,855
Licenses and permits	323,661	-	-
Federal revenue	15,861	-	-
State revenue	904,892	-	-
Charges for services	156,551	-	49,045
Fines and forfeits	28,371	-	-
Interest	19,722	8,930	4,846
Other revenue	15,644	-	95,177
	<hr/>	<hr/>	<hr/>
Total revenues	2,155,021	557,989	627,923
	<hr/>	<hr/>	<hr/>
Expenditures:			
Current:			
Legislative	84,872	-	-
General government	1,007,730	-	-
Public safety	539,860	-	681,623
Public works	440,519	588,210	-
Recreation and cultural	3,341	-	-
Other	192,872	-	-
	<hr/>	<hr/>	<hr/>
Total expenditures	2,269,194	588,210	681,623
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues over expenditures	(114,173)	(30,221)	(53,700)
	<hr/>	<hr/>	<hr/>
Fund balances - beginning of year	556,129	123,163	320,233
	<hr/>	<hr/>	<hr/>
Fund balances - end of year	<u><u>\$ 441,956</u></u>	<u><u>\$ 92,942</u></u>	<u><u>\$ 266,533</u></u>

See notes to financial statements.

Other Non-major Mosquito Control Fund	Total Governmental Funds
\$ -	\$ 690,319
145,903	1,173,817
-	323,661
-	15,861
-	904,892
-	205,596
-	28,371
3,021	36,519
-	110,821
148,924	3,489,857
-	84,872
138,711	1,146,441
-	1,221,483
-	1,028,729
-	3,341
-	192,872
138,711	3,677,738
10,213	(187,881)
61,156	1,060,681
\$ 71,369	\$ 872,800

**Charter Township of Fenton
Governmental Funds
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2005**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - total governmental funds	\$ (187,881)
---	--------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.

- Capital Outlay	252,542
- Depreciation expense	(194,752)

The payment of principal on long-term debt (e.g., bonds) consumes current financial resources of governmental funds,. However, on the statement of net assets, repayments of principal are recorded as a reduction to long term debt payable and do not affect net assets.

288,696

Increase in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources, and therefore are not reported in the fund statements until they come due for payment.

(14,338)

Change in net assets of governmental activities

\$ 144,267

See notes to financial statements.

**Charter Township of Fenton
Proprietary Fund
Statement of Net Assets
December 31, 2005**

	Sewer Enterprise Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 312,175
Restricted cash with agent	1,734,122
Receivables:	
Accounts	20,812
Taxes	275,401
Special assessments	29,705
User fees	228,520
Connection fees	51,693
Accrued interest	22,065
Due from other funds	4,378
Prepaid items	11,830
Total current assets	<u>2,690,701</u>
Noncurrent assets:	
Capital assets:	
Sewer utility system	42,868,165
Construction in progress	903,705
Less accumulated depreciation	<u>11,013,025</u>
Net capital assets	<u>32,758,845</u>
Deferred loss on bond refunding	<u>48,750</u>
Total assets	<u>35,498,296</u>
Liabilities	
Current liabilities:	
Accounts payable	260,701
Accrued interest	209,008
Unearned revenue	204,615
General obligation contracts payable-current	<u>1,468,980</u>
Total current liabilities	2,143,304
Noncurrent liabilities:	
General obligation contracts payable - long term	<u>24,364,578</u>
Total liabilities	<u>26,507,882</u>
Net assets	
Invested in capital assets, net of related debt	8,659,409
Unrestricted	<u>331,005</u>
Total net assets	<u><u>\$ 8,990,414</u></u>

See notes to financial statements.

**Charter Township of Fenton
Proprietary Fund
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended December 31, 2005**

	Sewer Enterprise Fund
Operating revenues:	
Charges for services	\$ 2,363,541
Operating expenses:	
Contractual services:	
Sewer treatment fees	983,838
Other	647,413
Administrative expense	130,000
Depreciation	840,041
Utilities	59,712
Billing fees and postage	6,038
Equipment repairs and maintenance	88,245
Insurance	5,519
Miscellaneous	16,520
Total operating expenses	2,777,326
Operating loss	(413,785)
Nonoperating revenues (expenses):	
Property taxes	92,068
Interest income:	
Connection fees	6,209
Savings account and certificates of deposit	83,107
Special assessments	3,575
Bond interest expense	(1,060,883)
Bond agent fees	(4,252)
Income (loss) before capital contributions	(1,293,961)
Capital contributions - tap in fees	653,575
Change in net assets	(640,386)
Net assets - beginning of year (as restated)	9,630,800
Net assets - end of year	\$ 8,990,414

See notes to financial statements.

**Charter Township of Fenton
Proprietary Fund
Statement of Cash Flows
December 31, 2005**

	Sewer Enterprise Fund
Cash flows from operating activities:	
Cash received from customers	\$ 2,267,218
Cash payments to suppliers for goods and services	(1,883,306)
Net cash provided by operating activities	<u>383,912</u>
Cash flows from capital and related financing activities:	
Principal payments on bonds	(5,419,204)
Bond proceeds	4,419,010
Interest and paying agent fees paid on bonds	(1,026,439)
Property taxes received	82,028
Connection fees - customers	688,317
Purchase of capital assets	(4,834,266)
Interest received on special assessments and connection fees	9,784
Net cash used in capital and related financing activities	<u>(6,080,770)</u>
Cash flows from investing activities:	
Interest received on investments	<u>83,106</u>
Net decrease in cash and cash equivalents	(5,613,752)
Cash and cash equivalents - beginning of year	<u>7,660,049</u>
Cash and cash equivalents - end of year	<u><u>\$ 2,046,297</u></u>
Balance sheet classification of cash and cash equivalents	
Cash and cash equivalents	\$ 312,175
Restricted cash with agent	<u>1,734,122</u>
Total cash and cash equivalents	<u><u>\$ 2,046,297</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (413,785)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	840,041
Changes in assets and liabilities:	
Decrease in receivables	(100,864)
Decrease in due from other funds	3,883
Increase in prepaids	(10,397)
Increase in accounts payable	64,376
Increase in unearned revenue	658
Total adjustments	<u>797,697</u>
Net cash provided by operating activities	<u><u>\$ 383,912</u></u>

Noncash operating and financing activities:

Interest expense of \$19,500 was recognized in 2005 as the deferred loss on refunding was amortized.

See notes to financial statements.

**Charter Township of Fenton
Fiduciary Funds
Statement of Assets and Liabilities
December 31, 2005**

	<u>Agency Funds</u>
Assets	
Cash and equivalents	<u>\$ 6,320,029</u>
Total assets	<u><u>\$ 6,320,029</u></u>
Liabilities	
Accounts payable	\$ 7,056
Deposits payable	240,326
Due to other governments	19,184
Undistributed taxes	<u>6,053,463</u>
Total liabilities	<u><u>\$ 6,320,029</u></u>

See notes to financial statements.

Notes to Basic Financial Statements

Charter Township of Fenton
Notes to Financial Statements
December 31, 2005

I. Summary of significant accounting policies

A. Reporting entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Charter Township of Fenton and any component units. Accounting principles require that a component unit be included in the Township's reporting entity when there exists a significant operational or financial relationship with the Township. The Township had no component units at December 31, 2005.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Charter Township of Fenton
Notes to Financial Statements
December 31, 2005

I. Summary of significant accounting policies – (continued)

C. Measurement focus, basis of accounting, and financial statement presentation – (continued)

Property taxes, state revenue sharing, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Township.

The Township reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounting for in another fund.

The *waste collection fund* is used to account for the customer charges which are to be used to pay contracted services for rubbish collection.

The *fire fund* is used to account for the revenues and expenditures related to fire protection.

The Township reports the following major proprietary fund:

The Sewer Disposal System is a separate fund maintained for the operations of the sewage pumping system that transmit the sewage to Genesee County's treatment plant.

Additionally, the government reports the following fund types:

Agency Funds account for assets held by the Township as an agent for individuals, private organization and other governments. Agency funds are reported as fiduciary funds and are not included in the government-wide Statement of Net Assets and Statement of Activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *options* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Charter Township of Fenton
Notes to Financial Statements
December 31, 2005

I. Summary of significant accounting policies – (continued)

C. Measurement focus, basis of accounting, and financial statement presentation – (continued)

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Township enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The Township's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". All trade and property tax receivables are shown net of an allowance for uncollectibles.

The Township levies property taxes on December 1 each year, and the taxes are payable without penalty through February 28. These taxes become liens on the property at the levy date. However, the revenues generated by the tax levy cannot be appropriated until the budget year following the levy date. The asset created by the levy on December 1 is recorded in the appropriate fund as current taxes receivable. In addition, a deferred revenue offset account is recorded on the fund financial statement recognizing the asset as unavailable for current appropriation.

The 2004 taxable valuation of the Township totaled \$629 million, on which taxes levied consisted of 0.7425 mills for operating purposes, and 0.1527 mills for debt service. This resulted in \$471,216 for operating, and \$91,385 for debt service. These amounts are recognized in the respective General and Sewer Fund financial statements as tax revenue.

3. Prepaids

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaids in both government-wide and fund financial statements.

Charter Township of Fenton
Notes to Financial Statements
December 31, 2005

I. Summary of significant accounting policies – (continued)

D. Assets, liabilities, and net assets or equity – (continued)

4. Restricted assets

At year end, the Township had unspent bond proceeds of \$1,734,122 on deposit with the Genesee County Water and Wastes Services Division for the construction of sewer line improvements. The Division will hold these bond proceeds on behalf of the Township and expend the bond proceeds for allowable construction costs.

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	15
Building and improvements	40
Sewer system infrastructure	50
Machinery and equipment	3-15
Furniture and fixtures	5

6. Compensated absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay and the portion of sick that is determined to be payable are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they are due and payable, for example, as a result of employee resignations and retirements.

7. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Charter Township of Fenton
Notes to Financial Statements
December 31, 2005

I. Summary of significant accounting policies – (continued)

D. Assets, liabilities, and net assets or equity – (continued)

7. Long-term obligations – (continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

II. Stewardship, compliance, and accountability

A. Budgets

The Township follows these procedures in establishing the budgetary data reflected in these financial statements:

1. The Township Board prepares a preliminary operating budget covering the General Fund and the Special Revenue Funds in accordance with accounting principles generally accepted in the United States of America for presentation at a public hearing.
2. A public hearing is held in conjunction with a regular board meeting.
3. The Township Board adopts the budget on the departmental level at a regular board meeting.
4. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances at December 31, 2005, has not been calculated.
5. Presented budgeted amounts are as originally adopted and as amended by the Township Board.

**Charter Township of Fenton
Notes to Financial Statements
December 31, 2005**

II. Stewardship, compliance, and accountability – (continued)

B. Construction code fees

The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall at January 1, 2005		\$250,167
Current year building permit revenue	\$166,472	
Related expenses:		
Direct costs	\$102,163	
Estimated indirect costs	<u>145,054</u>	
Total construction code expenses	<u>247,217</u>	
Current year shortfall		<u>80,745</u>
Shortfall at December 31, 2005		<u>\$330,912</u>

III. Detailed notes on all funds

A. Deposits and investments

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated three banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Township's deposits and investment policies are in accordance with statutory authority.

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits:

Charter Township of Fenton
Notes to Financial Statements
December 31, 2005

III. Detailed notes on all funds – (continued)

A. Deposits and investments – (continued)

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Township had \$8,116,107 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial credit risk of investments:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Township's name.

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
Repurchase Agreement	\$850,535	Counterparty

B. Receivables

Receivables as of year end for the Township's individual major funds and nonmajor in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Waste Collection Fund</u>	<u>Fire Fund</u>	<u>Sewer Disposal Fund</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Receivables:						
Taxes	\$216,162	\$ -	\$ -	\$275,401	\$ -	\$491,563
Accounts	41,559	691	-	301,025	144	343,419
Special assessment	10,788	519,017	441,480	29,705	130,840	1,131,830
Intergovernmental	296,127	-	25,300	-	-	321,427
Accrued interest	-	-	-	22,065	-	22,065
Gross receivables	564,636	519,708	466,780	628,196	130,984	2,310,304
Less: allowance for uncollectibles	-	-	-	-	-	-
Net total receivables	<u>\$564,636</u>	<u>\$519,708</u>	<u>\$466,780</u>	<u>\$628,196</u>	<u>\$130,984</u>	<u>\$2,310,304</u>

Charter Township of Fenton
Notes to Financial Statements
December 31, 2005

III. Detailed notes on all funds – (continued)

B. Receivables – (continued)

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes	<u>\$ -0-</u>	<u>\$1,718,637</u>

C. Capital assets

Capital asset activity for the year ended December 31, 2005 was as follows:

	<u>Balance 1-1-05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12-31-05</u>
Governmental activities:				
Land	\$ 60,690	\$ -	\$ -	\$ 60,690
Capital assets, being depreciated:				
Land improvements	219,660	5,631	-	225,291
Buildings and improvements	1,790,039	158,508	-	1,948,547
Machinery and equipment	1,774,399	88,403	-	1,862,802
Furniture and fixtures	16,172	-	-	16,172
Total capital assets being depreciated	3,800,270	252,542	-	4,052,812
Less accumulated depreciation for:				
Land improvements	(60,955)	(14,759)	-	(75,714)
Buildings and improvements	(268,704)	(49,294)	-	(317,998)
Machinery and equipment	(1,047,777)	(127,464)	-	(1,175,241)
Furniture and fixtures	(9,361)	(3,235)	-	(12,596)
Total accumulated depreciation	(1,386,797)	(194,752)	-	(1,581,549)
Total capital assets being depreciated, net	2,413,473	57,790	-	2,471,263
Governmental activities capital assets, net	\$ 2,474,163	\$ 57,790	\$ -0-	\$ 2,531,953
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 78,600	\$4,708,243	\$(3,883,138)	\$ 903,705
Total capital assets, not being depreciated	78,600	4,708,243	(3,883,138)	903,705
Capital assets, being depreciated:				
Buildings	47,990	-	-	47,990
Improvements other than buildings	38,811,018	4,009,157	-	42,820,175
Total capital assets being depreciated	38,859,008	4,009,157	-	42,868,165

**Charter Township of Fenton
Notes to Financial Statements
December 31, 2005**

III. Detailed notes on all funds -- (continued)

C. Capital assets -- (continued)

	Balance <u>1-1-05</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12-31-05</u>
Business-type activities: - (continued)				
Less accumulated depreciation for:				
Buildings	(7,999)	(1,600)	-	(9,599)
Improvements other than buildings	(10,164,985)	(838,441)	-	(11,003,426)
Total accumulated depreciation	(10,172,984)	(840,041)	-	(11,013,025)
Total capital assets being depreciated, net	28,686,024	3,169,116	-	31,855,140
Business-type activities capital assets, net	<u>\$28,764,624</u>	<u>\$7,877,359</u>	<u>\$(3,883,138)</u>	<u>\$32,758,845</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 68,306
Public safety	<u>126,446</u>
Total depreciation expense -- government activities	<u>\$194,752</u>
Business-type activities:	
Sewer	<u>\$840,041</u>

D. Interfund receivables, payables, and transfers

The composition of interfund balances as of December 31, 2005 is as follows:

Due to/from other funds:

Receivable <u>Fund</u>	Payable <u>Fund</u>	<u>Amount</u>
Sewer	General	<u>\$ 4,378</u>

E. Leases

Operating leases:

The Township has entered into a long-term noncancelable operating lease for copier/fax equipment. The following is a schedule, by year, of future minimum rental payments required under noncancelable operating lease as of December 31, 2005:

2006	8,981
2007	8,981
2008	8,981
2009	<u>2,245</u>
Total minimum payments required	<u>\$ 29,188</u>

Rental expense for the operating lease for the year ended December 31, 2005 amounted to \$8,981.

**Charter Township of Fenton
Notes to Financial Statements
December 31, 2005**

III. Detailed notes on all funds -- (continued)

F. Long-term debt

The Township was a participant in the county-wide sanitary sewer construction program. This program was financed by general obligation bonds issued by Genesee County. The Township was obligated to assume the portion of the total debt for the construction of the sewer system within its boundaries. The sewer contracts are supported by the full faith and credit of the Township. Significant details regarding the Township's obligations under this program, and details regarding other long-term liabilities, are as follows:

General obligation contracts payable at December 31, 2005, in the Sewer Enterprise Fund are comprised of the following individual issues:

	<u>Principal Outstanding December 31, 2005</u>
\$3,370,000 Southwest Extensions Refunding Bonds, Series 1998 contract due in annual installments of \$330,000 to \$395,000 through May 1, 2008, interest at 4.25 to 4.55 percent	\$ 1,115,000
\$2,531,321 Sewage Disposal System No. 3 Bonds, Series 1998 contract due in annual installments of \$67,355 to \$324,368 through April 1, 2019, interest at 4.5 to 5 percent	2,235,123
\$1,240,000 Ripley Rolston contract due in annual installments of \$75,000 to \$100,000 through October 1, 2017, interest at 5.0 to 5.5 percent	1,025,000
\$5,957,468 Sewer Disposal System No. 3 - Series 1996A contract due in annual installments of \$324,425 through May 1, 2006, interest at 5.2 percent	324,425
\$4,000,000 Sewage Disposal System No. 3 Bonds Series 2003A contract due in annual installments of \$125,000 to \$250,000 through December 1, 2024, interest at 4.05 percent	3,875,000
\$1,925,000 Torrey and Ponemah Road Arms contract due in annual installments of \$80,000 through May 1, 2008, interest at 5.89 percent	240,000
\$4,600,000 Sewage Disposal System No. 3 Bonds Series 2004B contract due in annual installments of \$100,000 to \$400,000 through April 2024, interest at 5 percent	4,600,000
\$8,000,000 Improvement Projects Series 2004A contract due in annual installments of \$250,000 to \$700,000 through April 2024, interest at 5 percent	8,000,000
\$4,419,010 Refinancing of Sewer Disposal System No. 3 Series 1996A contract due in annual installments of \$25,613 to \$462,733 through May 1, 2016, interest at 2.5 to 5 percent	4,419,010
	<u>\$25,833,558</u>

**Charter Township of Fenton
Notes to Financial Statements
December 31, 2005**

III. Detailed notes on all funds – (continued)

F. Long-term debt – (continued)

Governmental long-term debt payable at December 31, 2005 consists of the following liabilities:

	<u>Principal Outstanding December 31, 2005</u>
Installment obligation to Genesee County Road Commission payable in annual installments ranging from \$45,183 to \$89,646, through September 1, 2010, plus interest ranging from 5.083 to 6.96 percent, secured by the Township's limited tax full faith and credit	\$ 354,170
Installment purchase obligation to Citizens Bank, payable in annual installments of \$36,000 through November 1, 2007, plus interest at 5.75%, secured by the Township's limited tax full faith and credit	72,000
Installment purchase obligation to the State Bank, payable in annual installments of \$11,750 through July 1, 2010, plus interest at 4.0%, secured by the Township's limited tax full faith and credit	58,750
Installment purchase obligation to The State Bank, payable in annual installments of \$71,300 through April 1, 2017, plus interest at 4.5%, secured by the Township's limited tax full faith and credit	<u>855,600</u>
Total notes payable	<u>1,340,520</u>
Compensated absences	<u>69,592</u>
Special Assessment Debt with Governmental Commitment Bonds payable to Michigan National Bank, payable in annual installments of \$25,000 through March 1, 2009, plus interest ranging from 5.35 to 5.40 percent, secured by the revenues of the Wenwood/Wendell Special Assessment Road Improvement Project and the Township's limited tax full faith and credit	95,000
Special Assessment Debt with Governmental Commitment Bonds payable to Citizens Banking Corporation, payable in annual installments of \$25,000 to \$35,000 through May 1, 2012, plus interest at 5.675 percent, secured by the revenues of the Curtwood Drive/Silver Ridge Road Special Assessment Road Improvement Project and the Township's limited tax full faith and credit	<u>210,000</u>
Total special assessment debt with governmental commitment	<u>305,000</u>
Total general long-term debt	<u><u>\$1,715,112</u></u>

Charter Township of Fenton
Notes to Financial Statements
December 31, 2005

III. Detailed notes on all funds – (continued)

F. Long-term debt – (continued)

A summary of changes in general long-term debt during 2005 is as follows:

	Balance <u>1-1-05</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12-31-05</u>	Due Within <u>One Year</u>
Governmental activities:					
Notes payable:					
Genesee County Road Commission	\$ 443,816	\$ -	\$ 89,646	\$ 354,170	\$ 80,529
Citizens Bank	108,000	-	36,000	72,000	36,000
The State Bank	70,500	-	11,750	58,750	11,750
The State Bank	926,900	-	71,300	855,600	71,300
Special assessment debt with governmental commitment:					
Standard Federal	120,000	-	25,000	95,000	25,000
Bank One	30,000	-	30,000	-	-
Citizens Banking Corporation	235,000	-	25,000	210,000	25,000
Accumulated sick and vacation time	55,254	62,815	48,477	69,592	49,000
	<u>\$1,989,470</u>	<u>\$ 62,815</u>	<u>\$337,173</u>	<u>\$1,715,112</u>	<u>\$298,579</u>
Business activities:					
General obligation contracts:					
Southwest extensions					
Refunding bonds 1998	\$1,465,000	\$ -	\$ 350,000	\$1,115,000	\$395,000
Sewage Disposal System No. 3 Bonds 1998	2,302,477	-	67,354	2,235,123	93,942
Ripley Rolston Contract	1,075,000	-	50,000	1,025,000	75,000
Sewer Disposal System No. 3 1996A	5,071,275	-	4,746,850	324,425	324,425
Sewer Disposal System No. 3 2003A	4,000,000	-	125,000	3,875,000	125,000
Torrey and Ponemah Road Arm Contract	320,000	-	80,000	240,000	80,000
Sewage Disposal System No. 3 2004B	4,600,000	-	-	4,600,000	100,000
Improvements Projects Series 2004A	8,000,000	-	-	8,000,000	250,000
Sewer Disposal system No. 3 1996A – Refunding	-	4,419,010	-	4,419,010	25,613
	<u>\$26,833,752</u>	<u>\$4,419,010</u>	<u>\$5,419,204</u>	<u>\$25,833,558</u>	<u>\$1,468,980</u>

**Charter Township of Fenton
Notes to Financial Statements
December 31, 2005**

III. Detailed notes on all funds – (continued)

F. Long-term debt – (continued)

The annual requirements to amortize all debt outstanding as of December 31, 2005, including interest payments, are as follows:

<u>Period Ending December 31</u>	<u>Special Assessment Debt With Governmental Commitment</u>	<u>General Long-Term Debt Notes Payable</u>	<u>Sewer Utility Enterprise Fund Contracts and Bonds Payable</u>	<u>Total</u>
2006	\$ 66,023	\$ 260,599	\$ 2,545,948	\$ 2,872,570
2007	58,802	249,036	2,529,468	2,837,306
2008	65,905	185,669	2,471,701	2,723,275
2009	62,875	164,175	2,045,917	2,272,967
2010	34,823	158,473	2,045,880	2,239,176
2011-2015	73,972	483,887	10,423,494	10,981,353
2016-2020	-	152,226	8,724,254	8,876,480
2021-2025	-	-	5,588,250	5,588,250
	<u>\$362,400</u>	<u>\$1,654,065</u>	<u>\$36,374,912</u>	<u>\$38,391,377</u>

Act 359, Public Acts of State 1947, as amended, provides that net indebtedness of municipalities cannot exceed 10% of the assessed real and personal property in the Township. As of December 31, 2005, the Charter Township of Fenton incurred \$1,275,720 applicable to limitation (the sewer utility contracts and special assessment debt are excluded from the limitation). The Township's debt limit was \$86,411,751.

During the year ended December 31, 1998, the Township advance refunded the Southwest Extension Sewer Bonds originally issued for \$6,900,000. New bonds were issued in the amount of \$3,370,000 resulting in a reduction of \$189,504 in future payments, including interest. The proceeds of the new bonds were invested in U.S. Government Securities and placed in an irrevocable trust to provide funds to repay the refunded bonds and interest at the original payment dates. Accordingly, these bonds have been considered to be extinguished in an in-substance defeasance, and the securities and bonds do not appear in the balance sheet at December 31, 2005. The outstanding balance on the Southwest Extension Sewer Bonds was \$1,150,000 at December 31, 2005. A deferred loss on refunding was recognized during 1998 for \$195,000 and is being amortized over the life of the new bonds. The unamortized portion of the loss is \$48,750 at December 31, 2005.

During the year ended December 31, 2005, the Township advance refunded the Sewer Disposal System No. 3 1996A Bonds originally issued for \$5,957,468. New bonds were issued in the amount of \$4,419,010 resulting in a reduction of \$59,061 in future payments, including interest. The proceeds of the new bonds were invested in U.S. Government Securities and placed in an irrevocable trust to provide funds to repay the refunded bonds and interest at the original payment dates. Accordingly, these bonds have been considered to be extinguished in an in-substance defeasance, and the securities and bonds do not appear in the balance sheet at December 31, 2005. The outstanding balance on the Sewer Disposal System No. 3 1996A Bonds was \$4,422,425 at December 31, 2005.

Charter Township of Fenton
Notes to Financial Statements
December 31, 2005

IV. Other information

A. Post employment benefits other than pension

The Township passed an ordinance to continue to provide single coverage health benefits to certain active employees after they retire or leave office. The ordinance provides that health and medical benefits will be provided to eligible retirees. All employees age 55 or older with 20 years of full-time service are eligible.

The cost of the benefits is paid entirely by the Township as the costs are incurred. At year end, one retiree was eligible to receive these benefits. Benefits of \$6,452 were provided during 2005.

Upcoming reporting change:

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2009. Management is currently assessing the impact of this new accounting standard on the Township's financial statement for future reporting periods.

B. Contingent liabilities

Federal grants:

The Township participates in the federally assisted Community Development Block Grant and C.O.P.S. programs. These programs were not subject to compliance audits during the year because of the level of federal expenditures. The amount, if any, of expenditures which may be disallowed by the granting agency at a future date cannot be determined at this time, although management expects such amounts, if any, to be immaterial.

C. Risk management

The Township is exposed to various risks of loss related to property loss, torts, errors and omission, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for property loss, torts, errors and omissions, employee injuries and medical benefit claims and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to property loss, torts, errors and omissions, employee injuries and medical benefit; the Township is uninsured for unemployment and sewer discharge claims on an reimbursement basis claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal risk Management Authority's State Pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

The Township estimates the liability for unemployment and sewer discharge claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. The Township has not incurred or paid claims over the past two years and there is no unpaid claim balance at the beginning or ending of the year.

Charter Township of Fenton
Notes to Financial Statements
December 31, 2005

IV. Other information – (continued)

D. Restatement of net assets

The net assets at December 31, 2004 for the governmental activities were restated for a correction in the recognition of property tax and special assessment revenue.

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>Restated Amount</u>
Net assets	<u>\$3,174,027</u>	<u>\$(1,628,653)</u>	<u>\$1,545,374</u>

The net assets at December 31, 2004 for the business-type activities were restated for a correct in the recognition of property tax revenue.

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>Restated Amount</u>
Net assets	<u>\$9,727,248</u>	<u>\$(96,448)</u>	<u>\$9,630,800</u>

Required Supplementary Information

**Charter Township of Fenton
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2005**

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Taxes and collection fees	\$ 680,000	\$ 696,600	\$ 690,319	\$ (6,281)
Licenses and permits	396,500	327,100	323,661	(3,439)
Federal revenue	-	16,000	15,861	(139)
State revenue	936,800	912,900	904,892	(8,008)
Charges for services	166,000	166,000	156,551	(9,449)
Fines and forfeits	37,000	40,000	28,371	(11,629)
Interest	20,000	20,000	19,722	(278)
Other revenue	13,950	17,100	15,644	(1,456)
Total revenues	2,250,250	2,195,700	2,155,021	(40,679)
Expenditures:				
Legislative:				
Township board	92,000	109,500	84,872	24,628
General government	1,163,400	1,109,100	1,007,730	101,370
Public safety	578,100	589,400	539,860	49,540
Public works	231,500	444,500	440,519	3,981
Recreational and cultural	12,200	12,200	3,341	8,859
Other	203,500	202,600	192,872	9,728
Total expenditures	2,280,700	2,467,300	2,269,194	198,106
Excess (deficiency) of revenues over expenditures	(30,450)	(271,600)	(114,173)	157,427
Fund balance - beginning of year	556,129	556,129	556,129	-
Fund balance - end of year	\$ 525,679	\$ 284,529	\$ 441,956	\$ 157,427

**Charter Township of Fenton
Budgetary Comparison Schedule
Waste Collection Special Revenue Fund
For the Year Ended December 31, 2005**

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Special assessments	\$ 545,000	\$ 548,700	\$ 549,059	\$ 359
Interest	2,500	7,200	8,930	1,730
Total revenues	547,500	555,900	557,989	2,089
Expenditures:				
Public works	587,500	588,500	588,210	290
Excess (deficiency) of revenues over expenditures	(40,000)	(32,600)	(30,221)	2,379
Fund balance - beginning of year	123,163	123,163	123,163	-
Fund balance - end of year	\$ 83,163	\$ 90,563	\$ 92,942	\$ 2,379

**Charter Township of Fenton
Budgetary Comparison Schedule
Fire Special Revenue Fund
For the Year Ended December 31, 2005**

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Special Assessments	\$ 478,000	\$ 478,800	\$ 478,855	\$ 55
Charges for services	68,000	38,000	49,045	11,045
Interest	4,000	5,000	4,846	(154)
Other revenue	500	97,500	95,177	(2,323)
Total revenues	550,500	619,300	627,923	8,623
Expenditures:				
Public safety	532,000	714,600	681,623	32,977
Excess (deficiency) of revenues over expenditures	18,500	(95,300)	(53,700)	41,600
Fund balance - beginning of year	320,233	320,233	320,233	-
Fund balance - end of year	\$ 338,733	\$ 224,933	\$ 266,533	41,600

Other Supplementary Information

**Charter Township of Fenton
Budgetary Comparison Schedule
Non-Major Governmental Fund
Mosquito Special Revenue Fund
For the Year Ended December 31, 2005**

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Special assessments	\$ 142,500	\$ 145,600	\$ 145,903	\$ 303
Interest	500	2,500	3,021	521
Total revenues	143,000	148,100	148,924	824
Expenditures:				
General government	132,000	139,000	138,711	289
Excess of revenues over expenditures	11,000	9,100	10,213	1,113
Fund balance - beginning of year	61,156	61,156	61,156	-
Fund balance - end of year	\$ 72,156	\$ 70,256	\$ 71,369	\$ 1,113

**Charter Township of Fenton
Agency Funds
Balance Sheets
December 31, 2005**

	<u>Agency Funds</u>		<u>Totals 2005</u>
	<u>Trust & Agency Fund</u>	<u>Current Tax Collection Fund</u>	
Assets			
Cash and equivalents	\$ 247,389	6,072,640	\$ 6,320,029
Total assets	<u>\$ 247,389</u>	<u>\$ 6,072,640</u>	<u>\$ 6,320,029</u>
Liabilities			
Accounts payable	\$ 7,056	\$ -	\$ 7,056
Deposits payable	240,326	-	240,326
Due to other governments	7	19,177	19,184
Undistributed taxes	<u>-</u>	<u>6,053,463</u>	<u>6,053,463</u>
Total liabilities	<u>\$ 247,389</u>	<u>\$ 6,072,640</u>	<u>\$ 6,320,029</u>

May 10, 2006

Board of Trustees
Charter Township of Fenton
Fenton, Michigan

Dear Board of Trustees:

We recently completed our audit of the basic financial statements for the Charter Township of Fenton for the year ended December 31, 2005 and have issued our report under a separate cover. The following represent our comments and recommendations relative to potential improvements to financial policies, procedures, and other considerations.

Credit card policy

Through inquire during the audit it was noted that the township has a credit card and no formal written policy has been adopted. We suggest the township adopt a written credit card policy.

Sewer Fund Debt

We would like to communicate our concern for the current ability of the Sewer Fund to pay debt service on the outstanding contract and bond debt. On an annual basis the Sewer Fund will need to generate net cash flows of approximately \$2.5 million to pay annual principal and interest due. The resources will need to come from a combination of tap-in fees, special assessments, user rates, and possibly a millage if approved by the residents. We understand that the Board and management have been in the process of determining a plan of action to address this situation.

OTHER INFORMATIONAL ITEMS

State Shared Revenue (February 2006)

The State's fiscal year 2005/2006 provides for both constitutional and statutory revenue sharing at approximately \$1.1 billion, which is basically the fiscal year 2004/2005 funding level. As with the past several years, revenue sharing payments on an individual community-by-community basis for fiscal year 2005/2006 will be funded at approximately fiscal year 2004/2005 levels.

The Governor's proposed 2006/2007 budget did not include any additional funding for local governments. As a result, it is expected that overall revenue sharing payments to communities for fiscal year 2006/2007 will remain stagnant at the 2004/2005 level. Even though there is the expectation that

revenue sharing will hold constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue sharing may be maintained at current levels, sales tax revenue would support an increase to total state shared revenue payments. However, for fiscal years 2004/2005, 2005/2006, and 2006/2007, the appropriation in the State's budget for revenue sharing payments is over \$500 million less annually than amounts provided for in law and based on actual sales tax collections. For those three years, revenue sharing distributions are planned to be approximately \$1.6 billion less than amounts provided by statutory formulas. There appears to be no long term solution to the State's structural deficit in its General Fund and as long as this condition exists revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

State shared revenue accounts for approximately 42% of the Township's total General Fund revenue. The table below details state shared revenue for the Township over the past five years broken out by statutory and constitutional portions. In addition, it details the increase/(decrease) in state shared revenue experienced by the Township compared to the State's fiscal year 2000.

State Fiscal Year	Statutory	Constitutional	Total	In(De)crease from 2000
2000	\$ 103,120	\$ 682,820	\$ 785,940	\$- n/a
2001	147,565	841,521	989,086	203,146
2002	137,195	850,095	987,290	(1,796)
2003	105,537	864,486	970,023	(17,267)
2004	16,715	855,096	871,811	(98,212)
2005	0	875,502	875,502	3,691
2006 EST	0	890,077	890,077	14,575
2007 EST	0	915,043	915,043	24,966

The revenue sharing act does provide that a city, village, or township with a minimum 10% population growth confirmed by a special census, and levying at least one mill, is eligible for an annual payment for a portion or all of the growth population. Even if the township meets these criteria, funds for the special census payment must be appropriated by the Legislature.

Transportation Matters (February 2006)

NOTE: THE FOLLOWING ITEM ONLY DIRECTLY IMPACTS CITIES AND VILLAGES. HOWEVER, IT DOES IMPACT COUNTY ROAD COMMISSIONS AND INDIRECTLY IMPACTS TOWNSHIPS AS THE COUNTY ROAD COMMISSIONS IN THEORY MAY HAVE LESS MONEY AVAILABLE FOR WORK ON ROADS IN TOWNSHIPS.

The State experienced lower than anticipated Act 51 receipts for the State's 2004/2005 fiscal year which ended September 30, 2005. Plante & Moran publishes annually forecasted Act 51 distribution rates which we receive from the State and are based on its forecast of anticipated collections at the State level. If actual collections are less than amounts forecasted by the Michigan Department of Transportation, this could likely result in revenue less than budgeted amounts in the City's/Village's Major and Local Street Fund. There is also a concern about the State's forecast for fiscal year 2005/2006. We encourage the City to be conservative in budgeting Major and Local Street Fund revenue.

In 2004, the legislature modified Act 51 to allow local governments to transfer monies from their Major Street Fund to their Local Street Fund if a surplus existed. As a condition of the transfer, the amended law requires that certain conditions be met including the adoption of an asset management process for the Major and Local Street systems. It is important to note that these provisions sunset December 31, 2008. Without an extension of this provision, a transfer from the Major Street Fund to the Local Street Fund can only be done to the extent that local revenues exist in the Major Street Fund. There is also currently legislation proposed that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

As part of the Governor's fiscal year 2006/2007 budget proposal, a road funding program has been introduced which would provide approximately \$400 million to be used by local governments as Federal match monies on local road projects. The program requires legislation before it becomes effective.

Local Government Finance Model (February 2006)

In 2005, the Governor created a Local Government Fiscal Task Force to study the financial challenges of Michigan local governments. While their report was originally due by November 30, 2005, the Local Government Fiscal Task Force held its first meeting in September 2005. A report from this group is expected in 2006. Unrelated to the Local Government Fiscal Task Force, Citizens Research Council is conducting a study focused on documenting the nature and extent of structural fiscal problems facing local governments and to catalogue local services and activities for local units (with the intention that local governments will use this information to study the possibility of greater collaborative efforts to optimize government resources).

Personal Property Tax (Updated September 2005)

With the adoption several years ago by the State Tax Commission of new personal property tax tables for utilities (which made drastic changes to the transmission and distribution property of utilities and resulted in a corresponding revenue loss to local governments), many communities elected to continue to assess the transmission and distribution property of utilities using the old personal property tax tables which generated a series of lawsuits on this subject. To date, the new utility personal property tax tables implemented by the State Tax Commission have been upheld. In certain jurisdictions, refunds have been made or are in process from local governments to the utilities.

There appears to be considerable inconsistency relative to how the utility companies are proceeding related to refunds due from local governments (both between utilities and with respect to how a particular utility is handling different local governments). Some matters are settled and resolved. Other open matters are at different stages. We have heard that a utility had made a settlement offer to certain local units at 75% of the amount owed them. In relation to this matter, during the proceedings related to change in the multiplier tables, it was discovered that certain utilities may have under reported their self constructed assets creating the potential that monies were due to local governments for under paid property taxes. Earlier during the resolution of the multiplier table issue, it appeared that the resolution of both the multiplier table issue and the issue of under reported self constructed assets by the utilities would be resolved together. It appears that the State Tax Commission has separated these matters leaving the door open for the utilities to proceed with collection efforts on judgments outstanding related to the multiplier tables.

We encourage the Township to continue to monitor these developments as the Township could be negatively impacted by the outcome.

Telecommunications Act Changes (February 2006)

Changes were made by the Legislature to restrict the ability of local governments to engage in telecommunications activities. Additionally, threats exist at both the Federal and State level to restrict or eliminate the ability of local governments to regulate and franchise cable television, which would impact franchise fees received by local governments. We encourage the Township to monitor their developments closely given the impact that a reduction in cable franchise fees could have on the Township's budget.

Sincerely,

Plante & Moran, PLLC

PLANTE & MORAN PLLC